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Newsletter Publisher Is Accused by SEC Of False Claims

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Financial News Associates Said
To Have Asserted Ex-CIA
Officials Were Advisers

By BRUCE INGERSOLL

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON—The Securities and Exchange Commission accused Financial News Associates, a newsletter publisher, of defrauding its 32,000 subscribers and failing to register as an investment adviser.

The SEC alleged in administrative proceedings that Financial News made "untrue, deceptive and misleading statements" in soliciting almost 1.7 million prospective subscribers by mail. Financial News, the SEC charged, falsely claimed it relied on an advisory panel of former Central Intelligence Agency officials and other intelligence professionals for information used in its monthly newsletter, Investment Intelligence.

Financial News, a partnership owned by Brian W. Smith of Woodbridge, Va., and Patrick W. Garrard of New York, does business as the Woodbridge-based Center for Strategic Investing, according to the SEC. It was formed last October, the SEC said, but led subscribers to believe it had been in business for two years. Financial News also falsely claimed that 84% of the newsletter's predictions had been on the mark, the commission alleged.

In addition, the SEC charged that Financial News began seeking subscribers last November, and publishing in January, before it had registered as an investment adviser. It didn't file its application for registration with the commission until May 18.

An SEC administrative law judge will hold a hearing on the application Nov. 5. The SEC's enforcement division has recommended denying it.

The commission brought the same charges against Financial News and Messrs. Smith and Garrard in a suit filed last month in federal court in Alexandria, Va. They will go on trial Oct. 17 before Judge Albert V. Bryan Jr.

Mr. Smith said in an interview that the case involves freedom of the press issues.

SEC officials have "raised some basic First Amendment questions—licensing of the press and censorship, which is prior restraint," he said. "I don't feel it's appropriate to respond until we get to court."

In the September issue of Investment Intelligence, Mr. Smith said, Financial News published the SEC's entire complaint and offered to reimburse any unhappy subscribers. For 650 subscribers, the yearly rate was \$48; for the remainder, it was \$39.

From November through May, Financial News collected and deposited a total of \$1,184,729 in four accounts at First Commercial Bank in Arlington, Va., according to an SEC affidavit. Most of the money went to cover the cost of the direct-mail solicitations, Mr. Smith said.

Mr. Smith said he is a principal and major stockholder of Capitol Publications Inc. in Arlington. The company and its subsidiaries publish 45 newsletters, including Personal Finance, an investment advisory newsletter with 200,000 subscribers, he added. The subsidiary that publishes Personal Finance, KCI Communications Inc., is registered as an investment adviser.

Mr. Garrard, a direct-mail copywriter, was in Bermuda and unavailable for comment, Mr. Smith said.